

FOOD GIANT MARKETS INC. annual report for 1964



DIRECTORS

THEODORE E. CUMMINGS*

J. HOWARD EDGERTON*

HAROLD L. FIERMAN*

LAWRENCE A. HARVEY

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

**Members of the Executive Committee*

OFFICERS

HAROLD L. FIERMAN, *Chairman of the Board*

THEODORE E. CUMMINGS, *President and Chairman of the Executive Committee*

FRANCIS W. DANIELSON, *Vice President*

BRUCE J. CAMPBELL, *Vice President - Finance and Treasurer*

MARVIN F. BEACH, *Vice President*

WILLIAM B. LAYTON, *Vice President*

EVERETT E. YOUNT, *Secretary*

TRANSFER AGENTS

The Marine Midland Trust Company of New York, N. Y.

The Corporation Trust Company of Jersey City, N. J.

REGISTRAR

Chemical Bank New York Trust Company, New York, N. Y.

AUDITORS

Ernst & Ernst

COUNSEL

Kaye, Scholer, Fierman, Hays & Handler, New York, N. Y.

Tyre & Kamins, Beverly Hills, California

FOOD GIANT MARKETS, INC. / PRINCIPAL OFFICE

12500 East Slauson Avenue / Santa Fe Springs, California

COMPARISON FOR SIX-YEAR PERIOD 1959-1964

Food Giant Markets, Inc. and Consolidated Subsidiaries

	1964	1963	1962*	1961**	1960	1959*
Net Sales	\$307,299,675	\$273,085,628	\$221,392,319	\$196,532,509	\$136,645,328	\$94,907,994
Earnings before Federal Income Tax	8,035,387	6,472,582	6,841,354	5,700,734	5,763,591	3,018,841
Federal Taxes on Income	3,659,000	2,867,000	3,140,000	2,689,600	2,714,000	—#
Net Earnings	4,376,387	3,605,582###	3,701,354	3,011,134	3,049,591	3,018,841
Depreciation and Amortization	3,017,524	2,713,850	2,535,181	2,520,246	1,824,392	1,245,090
Cash Flow (net earnings plus amortization and depreciation)	7,393,911	6,319,432	6,236,535	5,531,380	4,873,983	4,263,931
Earnings per Share on Common Stock***	1.37	1.12###	1.15	.93	1.01	.99
Working Capital	19,507,606	15,696,233	11,395,367##	10,059,200##	8,772,145	6,958,277
Stockholders' Equity	32,440,143	28,134,476	25,034,575	21,427,656	19,035,211	17,431,260
Common Shares Outstanding at Year End***	3,084,314	3,074,982	3,070,148	3,019,996	2,744,159	2,696,790

*53-week period.

**56-week period.

***Adjusted for stock dividends paid and three-for-two stock split.

#Provision for Federal Taxes on Income not required due to prior year's tax loss carry over.

##Includes \$835,000 in 1962 and \$1,120,000 in 1961 of net current assets reflected in balance sheet under caption "Investments and Other Assets—Investment in McDaniel's Markets."

###Before special non-recurring charge against 1963 after-tax earnings of \$348,322, equivalent to \$.12 per share.

TO OUR SHAREHOLDERS:

Operations for the 52 weeks ended January 31, 1965, were the most successful in the history of the Company and resulted in record sales and earnings. For the fiscal year, net sales were \$307,299,675 compared with \$273,085,628 for the prior year, an increase of more than 12%. Pre-tax earnings were \$8,035,387 as compared with \$6,472,582, an increase of 24%. After-tax earnings were \$4,376,387 (\$1.37 per share) compared with \$3,605,582 (\$1.12 per share), an increase of over 21%.*

These increased sales and earnings were achieved despite the adverse effect of two strikes in the supermarket division, a month-long strike by the Teamsters employees and a ten-day strike by the Meat Cutters. Both of these strikes were industry-wide and settled through negotiations between the unions and the Food Employers Council of Los Angeles. New long-term contracts negotiated with these two unions and the Retail Clerks Union should be a sound foundation for satisfactory labor relations during the term of these agreements.

The balance sheet of your Company at the fiscal year end continues to show a most satisfactory financial condition. Current assets at January 31, 1965, were \$41,758,827 with current liabilities of \$22,251,221, reflecting a year-end current ratio of 1.87 to 1, and working capital of \$19,507,606. Stockholders' equity showed a substantial increase from \$28,134,476 to \$32,440,143, exceeding \$30,000,000 for the first time. The cash flow resulting from retained earnings and depreciation will continue to finance your Company's expansion program.

Two regular semi-annual cash dividends aggregating \$.40 a share on the preferred stock were paid in 1964 and, in addition, two semi-annual stock dividends aggregating 4% were paid on the common stock.

During 1964 there were opened seven new Food Giant Markets, one new Unimart, and four new Builders Emporiums. In addition, your Company acquired the assets of the Big A Discount Store in La Mirada, California, which will be operated as a Unimart. The Food Giant merchandising complex on January 31, 1965, consisted of sixty-eight supermarkets, twelve low-cost distribution centers, thirteen hard goods "do-it-yourself" operations, and six package liquor stores.

The operations of Meyenberg Milk Products, Inc., a wholly-owned subsidiary, and Golden Creme Farms, Inc., in which we own a controlling interest, continue to

make important contributions to the profits of this Company and are maintaining an encouraging pattern of growth and profits.

Operations for the first fiscal quarter ending April 30, 1965, indicate a continuance of the trend of improvement established in 1964.

During the coming year our expansion program includes the opening of two new Unimart department stores, four Food Giant supermarkets, and five Builders Emporiums, including the conversion of a Food Giant to a Builders Emporium. These plans have been developed by your management to meet the requirements of the growing population in Southern California.

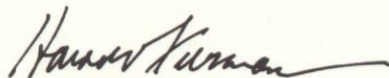
To benefit from the changing demands of the consuming public, your Company has embarked upon a program of redesigning its Unimart stores in the Los Angeles area and converting them into low-cost family department stores, presenting a broader group of soft goods in fashion, quality, and price range. These innovations should result in higher volume in these units.

The management group of your Company was further strengthened during the year. Mr. William B. Layton, formerly Director of Sales Promotion for S. Klein Department Stores of New York City, has joined our organization as President of our Unimart Division and Vice President of Food Giant Markets, Inc. Mr. Marvin F. Beach has assumed the duties of Vice President of Food Giant Markets, Inc., in charge of Food Merchandising. Mr. Beach, prior to assuming these duties for Food Giant, held the position of Grocery Merchandising Manager for one of the nation's outstanding chains. On August 31, Mr. Richard Christian became Director of the Food Giant Meat Department. He formerly held a like position with a national supermarket chain in the Los Angeles area.

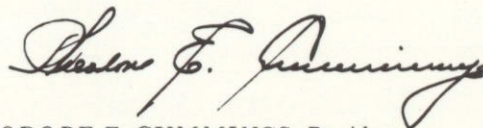
Mr. Seymour Rabin, on November 30, 1964, resigned as President of Unimart for personal reasons. His duties have been assumed by Mr. Layton.

The improved trend and pattern of operations in all our divisions strengthen your management's opinion that your Company is facing a period of important growth in sales and profits. Our increasing number of loyal and able employees and suppliers and the continuing support of our shareholders and customers are important factors contributing to our confidence in the future.

*Based on 3,084,314 shares of common stock outstanding January 31, 1965.



HAROLD L. FIERMAN, Chairman of the Board



THEODORE E. CUMMINGS, President



FOOD

You
the best
product
at

Older Cream Dairy Products

2-39¢

STATEMENT OF CONSOLIDATED FINANCIAL

ASSETS	January 31, 1965	February 2, 1964
CURRENT ASSETS		
Cash	\$ 6,182,272	\$ 3,670,169
Trade receivables, less allowances (1965—\$154,846; 1964—\$112,711) for doubtful	7,503,862	6,728,156
Merchandise inventories—generally at lower of average cost or market	26,401,653	22,266,926
Prepaid expenses	1,178,557	1,635,868
Properties and equipment, subject to agreement of sale and lease-back, less interim financing (1965—\$2,214,000; 1964—\$1,178,000)	492,483	725,419
TOTAL CURRENT ASSETS	<u>\$41,758,827</u>	<u>\$35,026,538</u>
INVESTMENTS AND OTHER ASSETS		
Investments in Giant Realty, Inc. and Glen-Brand, Inc.— at equity in net assets	\$ 87,748	\$ 85,084
Investments in affiliates (1965—\$1,937,830; 1964—\$1,437,830) and other capital stocks—at cost	1,947,355	1,462,356
Notes receivable	507,297	585,397
Liquor licenses and sundry	1,676,771	1,588,987
Trademarks, patents, and franchises—at cost less amortization	156,650	130,940
Deferred charges	666,268	476,591
TOTAL INVESTMENTS AND OTHER ASSETS	<u>\$ 5,042,089</u>	<u>\$ 4,329,355</u>
PROPERTY, PLANT, AND EQUIPMENT—on the basis of cost		
Land (1965—\$105,250; 1964—\$120,250), buildings, fixtures and equipment, leaseholds, and leasehold improvements	\$33,931,117	\$31,695,425
Less allowances for depreciation and amortization	14,946,239	12,131,886
	<u>\$18,984,878</u>	<u>\$19,563,539</u>
Deposits on purchase of equipment (total cost 1965—\$94,071; 1964—\$404,741)	70,096	238,666
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>\$19,054,974</u>	<u>\$19,802,205</u>
	<u><u>\$65,855,890</u></u>	<u><u>\$59,158,098</u></u>

POSITION/FOOD GIANT MARKETS, INC. AND CONSOLIDATED SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1965	February 2, 1964
CURRENT LIABILITIES		
Trade accounts payable	\$14,557,224	\$14,288,473
Salaries and wages, payroll taxes, and amounts withheld from payrolls	2,426,883	1,941,891
Accrued taxes, interest, rent, and other expenses	2,126,011	1,244,831
Federal taxes on income—estimated	2,349,494	1,635,503
Current portion of long-term debt	791,609	219,607
TOTAL CURRENT LIABILITIES	\$22,251,221	\$19,330,305
LONG-TERM DEBT—less amounts included in current liabilities		
5¾% promissory note payable to insurance company— payable \$725,000 annually—Note B	\$10,275,000	\$11,000,000
Other long-term debt		66,286
TOTAL LONG-TERM DEBT	\$10,275,000	\$11,066,286
DEFERRED FEDERAL TAXES ON INCOME	\$ 889,526	\$ 627,031
STOCKHOLDERS' EQUITY		
Capital stock—Notes C and D:		
Preferred Stock, par value \$10 a share:		
4% Cumulative Convertible Preferred Stock; authorized, issued, and outstanding 1965—386,975 shares, 1964—391,617 shares	\$ 3,869,750	\$ 3,916,170
Other, not presently defined; authorized 522,510 shares, none outstanding		
Common Stock, par value \$1 a share:		
Authorized 5,000,000 shares; issued and outstanding 1965—3,182,503 shares, 1964—3,053,726 shares (including 98,189 shares in treasury)	3,182,503	3,053,726
Additional capital paid in—Note C	18,212,403	16,149,900
Retained earnings—Note B	9,364,886	7,204,079
	\$34,629,542	\$30,323,875
Less Common Stock in treasury—98,189 shares at cost	2,189,399	2,189,399
TOTAL STOCKHOLDERS' EQUITY	\$32,440,143	\$28,134,476
COMMITMENTS AND CONTINGENT LIABILITIES—Note E		
	\$65,855,890	\$59,158,098

See notes to financial statements

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

Food Giant Markets, Inc. and Consolidated Subsidiaries

	Fiscal Years Ended	
	January 31, 1965 (52 weeks)	February 2, 1964 (52 weeks)
Net sales	\$307,299,675	\$273,085,628
Cost of merchandise sold	236,070,513	211,924,402
	\$ 71,229,162	\$ 61,161,226
Selling, administrative, and general expenses	65,114,503	55,931,483
	\$ 6,114,659	\$ 5,229,743
Other income (rents, dividends, and sundry earnings)	2,748,541	2,224,062
	\$ 8,863,200	\$ 7,453,805
Other deductions:		
Interest on long-term debt	\$ 653,082	\$ 595,961
Other interest	46,738	178,489
Miscellaneous	127,993	206,773
	\$ 827,813	\$ 981,223
	\$ 8,035,387	\$ 6,472,582
INCOME BEFORE INCOME TAXES		
Estimated federal income taxes, including taxes deferred to future years (1965—\$264,495; 1964—\$347,643)	3,659,000	2,867,000
	\$ 4,376,387	\$ 3,605,582
NET INCOME		
Special items:		
Store preopening expenses incurred in prior years, less applicable income taxes of \$437,717		\$ 413,911
Deferred portion of prior year's investment credit		(193,152)
Prior years federal income taxes, and related adjustments arising from Revenue Agent's examination		39,315
Miscellaneous, less applicable income taxes of \$95,436		88,248
		\$ 348,322
	\$ 4,376,387	\$ 3,257,260
NET INCOME AND SPECIAL ITEMS		
Retained earnings at beginning of year	7,204,079	6,295,535
	\$ 11,580,466	\$ 9,552,795
Stock dividends paid—4% in each year (at approximate market value at date of issuance):		
1965—119,612 shares; 1964—114,719 shares	\$ 2,060,291	\$ 2,191,429
Cash dividends paid on Preferred Stock (\$.40 a share)	155,289	157,287
	\$ 2,215,580	\$ 2,348,716
	\$ 9,364,886	\$ 7,204,079
RETAINED EARNINGS AT END OF YEAR		
Provision for depreciation and amortization of property, plant, and equipment amounted to: 1965—\$3,017,524; 1964—\$2,713,850		

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Food Giant Markets, Inc. and Consolidated Subsidiaries, January 31, 1965

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries engaged in manufacturing or marketing operations. During the fiscal year ended January 31, 1965, three wholly-owned subsidiaries were merged into the Company. The statements do not include the accounts of two wholly-owned real estate subsidiaries whose combined statements are shown separately. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE B—LONG-TERM DEBT

The loan agreement relating to the note payable to an insurance company places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of \$11,000,000. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net income which is defined in the agreement as the sum of \$600,000 plus 70% of consolidated net income subsequent to November 3, 1963. Under this restriction, retained earnings available for the payment of cash dividends at January 31, 1965, was \$4,053,361.

NOTE C—CAPITAL STOCK AND ADDITIONAL CAPITAL PAID IN

Changes during the year in capital stock and additional capital paid in are summarized as follows:

	4% Cumulative Convertible Preferred Stock	Common Stock	Additional Capital Paid In
Balances at beginning of year	\$3,916,170	\$3,053,726	\$16,149,900
Conversion of 4,642 shares of Preferred Stock into 3,480 shares of Common Stock	(46,420)	3,480	42,914
2% stock dividends paid—59,140 shares on July 1, 1964, and 60,472 shares on December 15, 1964, at approximate market value at date of issuance		119,612	1,940,679
Issuance of 5,685 shares of Common Stock under stock option agreements		5,685	78,910
Balances at end of year	<u>\$3,869,750</u>	<u>\$3,182,503</u>	<u>\$18,212,403</u>

The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The series presently outstanding may be redeemed at any time at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution, is entitled to \$10 a

share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of three-quarters of a share of Common Stock for each share of Preferred Stock. At January 31, 1965, a total of 290,231 shares of Common Stock was reserved for such conversion.

NOTE D—STOCK OPTIONS

The Company's stock option plan, as amended, provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date and in no event less than \$17 a share. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At February 2, 1964, options for 42,371 shares were outstanding and 61,669 shares were reserved for future grants. During the fiscal year ended January 31, 1965, options for 11,915 shares were granted, 5,685 shares were sold for \$84,595 to employees exercising their options, and options for 7,469 shares lapsed. At January 31, 1965, (after giving effect to stock dividends declared during the year) options for 42,681 shares at prices ranging from \$13.93 to \$24.95 a share were outstanding, and 59,764 shares were reserved for future grants. There have been no charges or credits to income with respect to the options.

NOTE E—COMMITMENTS AND CONTINGENT LIABILITIES

The companies occupy certain premises under leases expiring more than three years from January 31, 1965, for which the aggregate minimum annual rentals approximate \$5,900,000 (including approximately \$260,000 for premises owned by Giant Realty, Inc., an unconsolidated subsidiary). Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. In addition, the companies have executed leases for additional locations requiring minimum annual rents of \$650,000, which were unoccupied at January 31, 1965.

The companies also are liable for annual rent under leases expiring more than three years from January 31, 1965, of approximately \$1,390,000 in connection with the leasing of delivery and store equipment over periods ranging to February 1973.

At January 31, 1965, the Company was contingently liable as endorser on a \$730,000 note receivable that had been sold. This note had been received on the sale of certain assets of the Company.

To the Stockholders and Board of Directors

Food Giant Markets, Inc., Santa Fe Springs, California

We have examined the statement of consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the statement of combined financial position of Giant Realty, Inc. and Glen-Brand, Inc. as of January 31, 1965, and the related statements of income and retained earnings for the fiscal year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of income and retained earnings present fairly the consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the combined financial position of Giant Realty, Inc. and Glen-Brand, Inc. at January 31, 1965, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California, April 2, 1965

ERNST & ERNST

STATEMENT OF COMBINED FINANCIAL POSITION

Giant Realty, Inc. and Glen-Brand, Inc.

	January 31, 1965	February 2, 1964
ASSETS		
Cash	\$ 23,325	\$ 24,424
Rent receivable	72,143	72,143
Estimated refundable federal income taxes	1,434	
Other assets	17,777	19,125
Property (subject to mortgage note payable)—on the basis of cost:		
Land	\$ 697,833	\$ 697,833
Buildings	2,597,000	2,597,000
	<u>\$3,294,833</u>	<u>\$3,294,833</u>
Less allowance for depreciation	178,544	113,619
	<u>\$3,116,289</u>	<u>\$3,181,214</u>
	<u>\$3,230,968</u>	<u>\$3,296,906</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Interest	\$ 47,210	\$ 49,802
6% First Mortgage Note payable to a foundation—due \$126,275 semiannually, including interest; final installment due May 1, 1987—also secured by assignment of the lease applicable to the Company's property	3,096,010	3,159,910
Federal taxes on income—estimated		2,110
Stockholder's equity:		
Capital stock (all owned by Food Giant Markets, Inc.):		
Giant Realty, Inc.—no par value; authorized 100,000 shares; issued and outstanding 500 shares—stated capital	\$ 5,000	\$ 5,000
Glen-Brand, Inc.—par value \$100 a share; authorized 250 shares; issued and outstanding 10 shares	1,000	1,000
Additional capital paid in	70,000	70,000
Retained earnings	11,748	9,084
	<u>\$ 87,748</u>	<u>\$ 85,084</u>
	<u>\$3,230,968</u>	<u>\$3,296,906</u>
<p>Note A—On March 2, 1965, Glen-Brand, Inc. acquired the leasehold interest and an assignment of the ground leases relating to a new Food Giant Market location. The purchase price of the leasehold interest amounted to \$500,000. In connection with this transaction, Glen-Brand, Inc. borrowed \$450,000, on a 5½% first mortgage note, payable \$33,565 annually to 1990, and \$50,000, on a noninterest-bearing demand note from Food Giant Markets, Inc. The mortgage note is secured by the related property of the Company and an assignment of the lease to Food Giant Markets, Inc., thereon.</p>		

STATEMENT OF COMBINED INCOME AND RETAINED EARNINGS

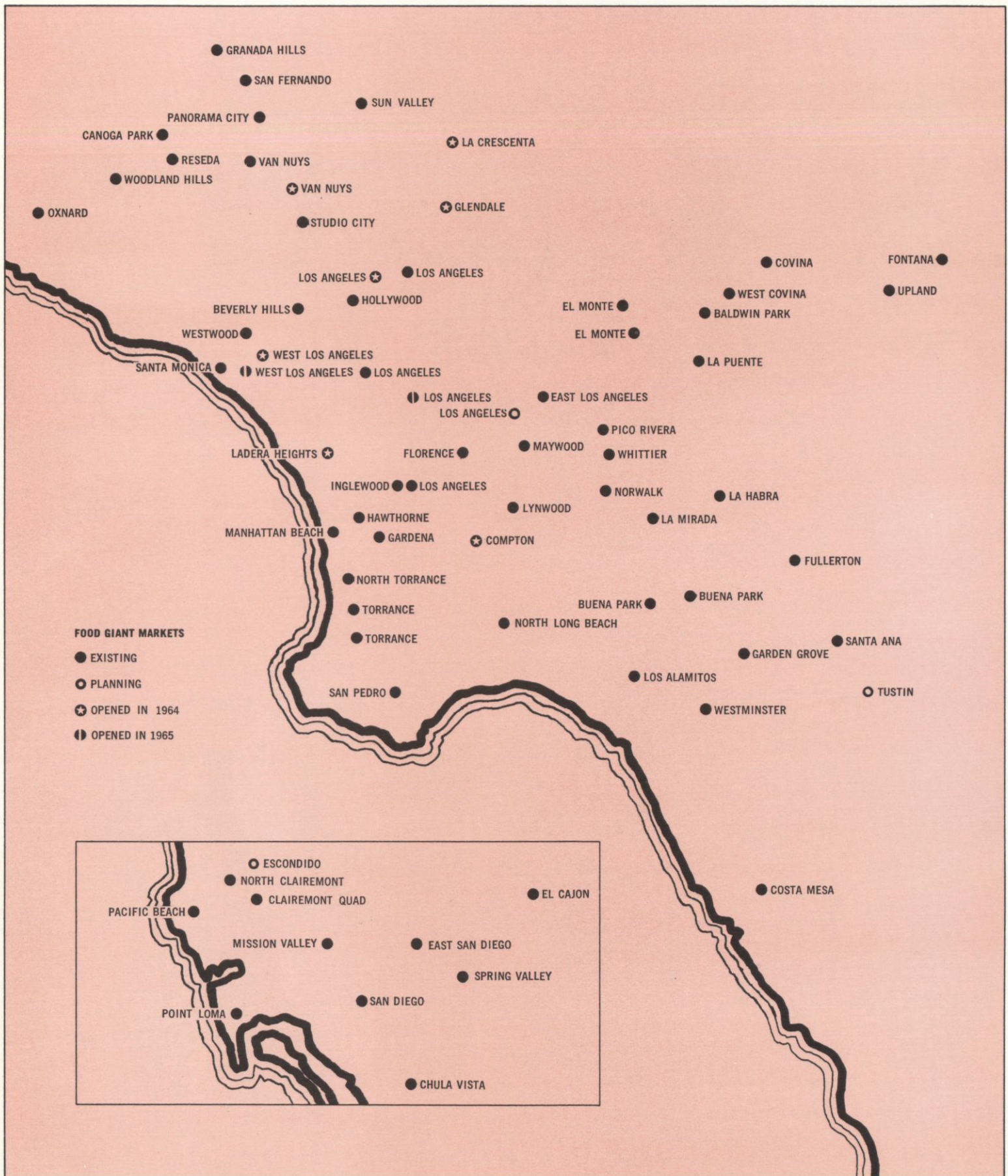
Giant Realty, Inc. and Glen-Brand, Inc.

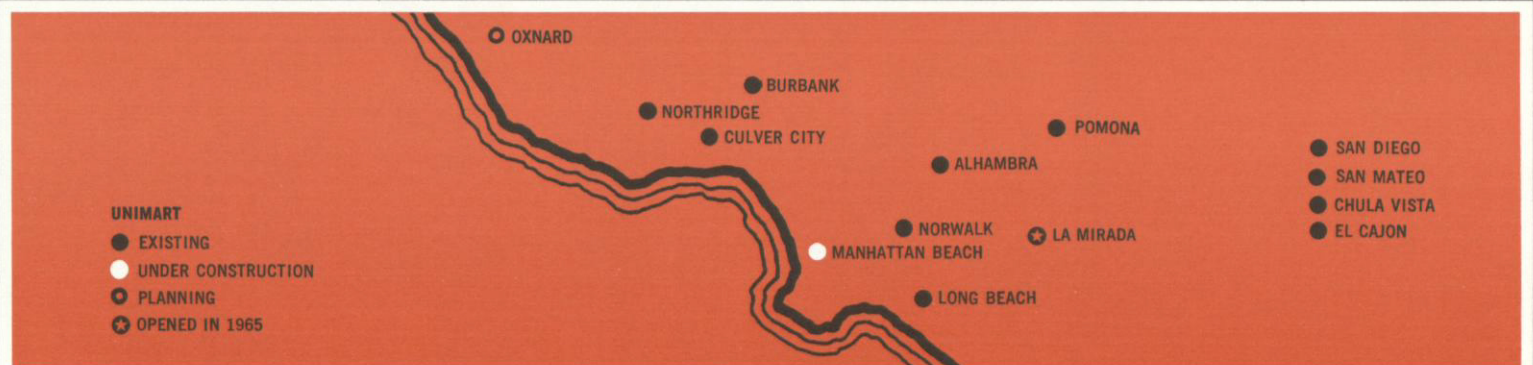
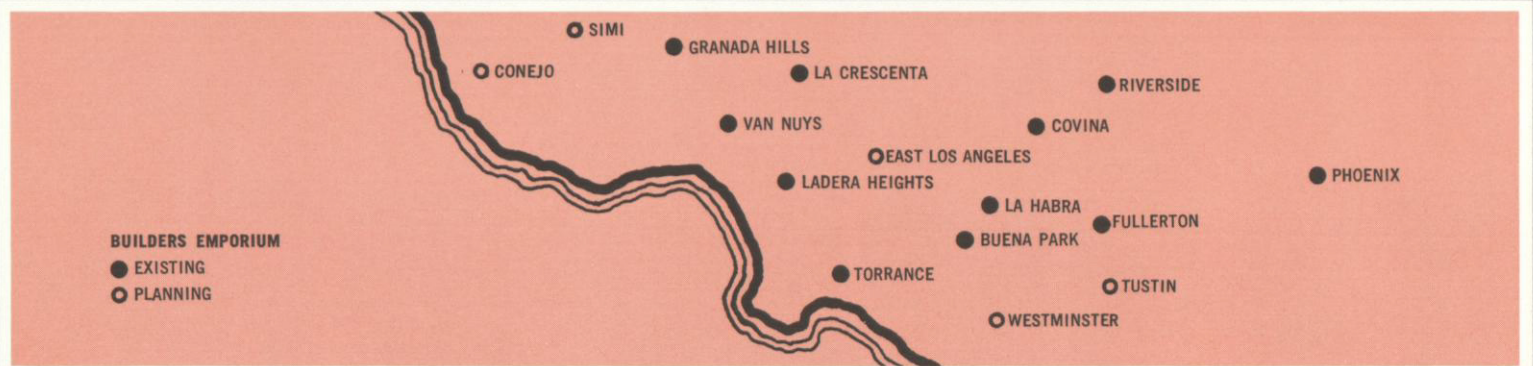
	Fiscal Years Ended	
	January 31, 1965 (52 weeks)	February 2, 1964 (52 weeks)
Rental income from Food Giant Markets, Inc.	\$ 260,000	\$ 260,000
Other income		5,311
	<u>\$ 260,000</u>	<u>\$ 265,311</u>
Expenses:		
Interest	\$ 186,900	\$ 190,574
Depreciation	64,925	64,925
Other	2,457	1,953
	<u>\$ 254,282</u>	<u>\$ 257,452</u>
INCOME BEFORE INCOME TAXES		
Estimated federal income taxes	\$ 5,718	\$ 7,859
	<u>3,054</u>	<u>2,137</u>
NET INCOME		
Retained earnings at beginning of year	\$ 2,664	\$ 5,722
	<u>9,084</u>	<u>3,362</u>
RETAINED EARNINGS AT END OF YEAR		
	<u>\$ 11,748</u>	<u>\$ 9,084</u>
<i>See note to statement of combined financial position</i>		



FOOD GIANT SERVES SOUTHERN CALIFORNIA

Steadily growing to meet the needs of the community





PRIVATE LABEL BRANDS AND PUBLIC IMAGE

Your Company's private label brands, including Food Giant, Unimart and Builders Emporium products, play a significant and profitable role in the Company's operation. Packages for all the Company's private label products are attractively designed, and constantly improved,

with emphasis on enhancing the quality of the product and promoting the identification of the brand name. Competitively priced, these quality brands bring the Company image into the homes of thousands of consumers and effectively strengthen the Company reputation for top quality at low prices.





PANELAIRE

2x 4	1.75
2x 6	1.75
2x 8	1.75
2x 10	1.75
2x 12	1.75
2x 14	1.75
2x 16	1.75
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2x 80	1.75
2x 82	1.75
2x 84	1.75
2x 86	1.75
2x 88	1.75
2x 90	1.75
2x 92	1.75
2x 94	1.75
2x 96	1.75
2x 98	1.75
2x 100	1.75

PANELAIRE MOULDING

4x4	4.95
4x6	2.95
4x8	2.39
4x10	1.91
4x12	1.80
4x14	.59
4x16	1.49
4x18	.39
4x20	.39
4x22	.39
4x24	.39
4x26	.39
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4x88	.39
4x90	.39
4x92	.39
4x94	.39
4x96	.39
4x98	.39
4x100	.39

